

AR51

Drummond, McCall & Co., Limited Annual Report 1973



Contents

Directors and Officers	Inside front cover
Highlights	1
Report to Shareholders	2
Photographs of Product Applications	4
Balance Sheet	6
Earnings Statements	8
Source and Application of Funds	10
Notes to Financial Statements	10
Auditors' Report	Inside back cover

Directors

Douglas T. Bourke
President and Chief Operating Officer
Drummond, McCall & Co., Limited

Derek A. Drummond
Associate Professor of Architecture and
Associate Director School of Architecture
McGill University

Colin S. Glassco
Chairman, Southam Printing Limited

Alex D. Hamilton
President,
Domtar Pulp and Paper Products Limited

Howard J. Lang
Chairman and Chief Executive Officer
Canron Limited

A. David McCall
Research Manager
Drummond, McCall & Co., Limited

Hugh G. Seybold
Chairman of the Board and Chief Executive Officer
Drummond, McCall & Co., Limited

William T. Stewart, Q.C.
Partner, Byers, Casgrain & Stewart

Executive Officers

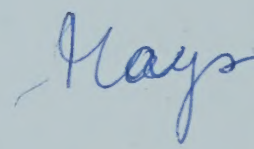
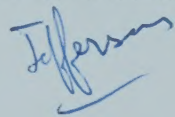
Hugh G. Seybold
Chairman of the Board and Chief Executive Officer

Douglas T. Bourke
President and Chief Operating Officer

A. Edward Grundy
Vice-President

Stanley M. Petersen
Vice-President Finance and Secretary-Treasurer

Bruce H. Wepler
Controller and Assistant Secretary-Treasurer



Head Office

5205 Fairway St.
Lachine, Quebec

Mailing Address:
P.O. Box 219, Postal Station A.,
Montreal, Quebec H3C 2S4

Offices and Plants

Halifax
Lachine
Toronto
Hamilton
Winnipeg
Calgary

Sales Offices

Quebec
Vancouver

Incorporation

Under the laws of Canada.

Shareholders' Auditors

Price Waterhouse & Co.
Montreal

Counsel

Ogilvy, Cope, Porteous, Hansard, Marler,
Montgomery & Renault
Montreal

**Share Transfer Agent
and Registrar**

The Royal Trust Company
Halifax, Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver.

Highlights

(In thousands of dollars except where noted by asterisk)

	1973	1972
Revenues	\$75,567	\$55,078
Net earnings	4,338	1,683
Net earnings per common share*	3.10	1.20
Net earnings percent of revenues	5.7%	3.1%
Capital expenditures	654	286
Depreciation	590	566

**Directors' Report
to Shareholders**

Sales for the year 1973 amounted to \$75.6 million, a new record, and represent an increase of \$20.5 million or 37.2% over 1972.

Demand throughout the year for all products and services was unprecedented, reaching a peak during the fourth quarter. All plants of the Company contributed to the increase in sales with their equipment operating close to capacity.

As a result of the high volume of sales and full utilization of facilities, earnings were correspondingly greater and the Company earned \$3.10 per share compared with \$1.20 per share in 1972.

Part of these earnings went to finance increased accounts receivable which rose \$4.7 million over 1972 to \$13.8 million thus enabling the Company to avoid extra borrowing at the current high rates of interest. Total interest charges declined for the year from \$456,000 to \$426,000 despite the higher rates.

Since the Company's operations involve processing (i.e. slitting, flame cutting, etc.) of metals, the Company believes it is eligible, on a portion of its profits, for the reduced rates of federal income tax available since January 1, 1973 to "manufacturers and processors". Accordingly, the provision for income taxes for 1973 reflects the effect of this saving.

In common with other industries, the Company faced steadily increasing costs of doing business. Salaries, wages and fringe benefits rose considerably in 1973 as did the cost of goods and services purchased. However, the installation of additional new equipment to handle and process the increased volume of material, plus close control over expenses, helped to moderate the rise in costs.

Capital expenditure for the year was \$650,000, an increase of \$360,000 over 1972. This was primarily for the extension of the Winnipeg plant and for additional material handling and processing equipment, mentioned above.

The regular quarterly dividend rate was increased from 15 cents per share to 18 cents per share on the Class A Convertible Common Stock, and from 12.75 cents to 15.3 cents on the Class B Convertible Common Stock commencing in the fourth quarter of 1973. In addition, an extra dividend was declared, payable in December 1973, of 9 cents per share on the Class A Convertible Common Stock and 7.65 cents per share on the Class B Convertible Common Stock.

Total dividends paid during the year amounted to 72 cents on the Class A shares and 61.3 cents on the Class B shares.

Influenced by strong global demand for all metals, the Canadian metal market experienced a sharp upturn in 1973. In a number of products, particularly steel, sales were restricted as it was not possible to maintain adequate inventories to meet customer requirements at all times. This resulted in the turnover of inventories, as a function of sales, being abnormally high.

World demand for most metals continues to be very strong. As a result the price of such metals available for export to Canada is considerably in excess of those prevailing in prior years. The requirement for steel in the capital goods, construction and related industries will be significant during 1974 and it is expected that supply will not be sufficient to satisfy this demand in the near future. There is no evidence at present of a slackening demand for the Company's products, but it is anticipated that growth cannot continue at the same rate as was experienced in recent years.

Total assets increased by \$6 million during the year to \$34 million. Major changes were increases in accounts receivable and inventory.

Working capital at December 31, 1973 was \$12 million, an increase of \$1 million from last year. Earnings were 5.7% of sales.

The various factors affecting working capital are shown in the Statement of Source and Application of Funds in the financial section of this report.

The Annual Meeting of Shareholders will be held in the Vice-Regal Suite at the Ritz Carlton Hotel, 1228 Sherbrooke Street West, Montreal, Quebec on Friday, the 5th day of April 1974, at 11:00 a.m.

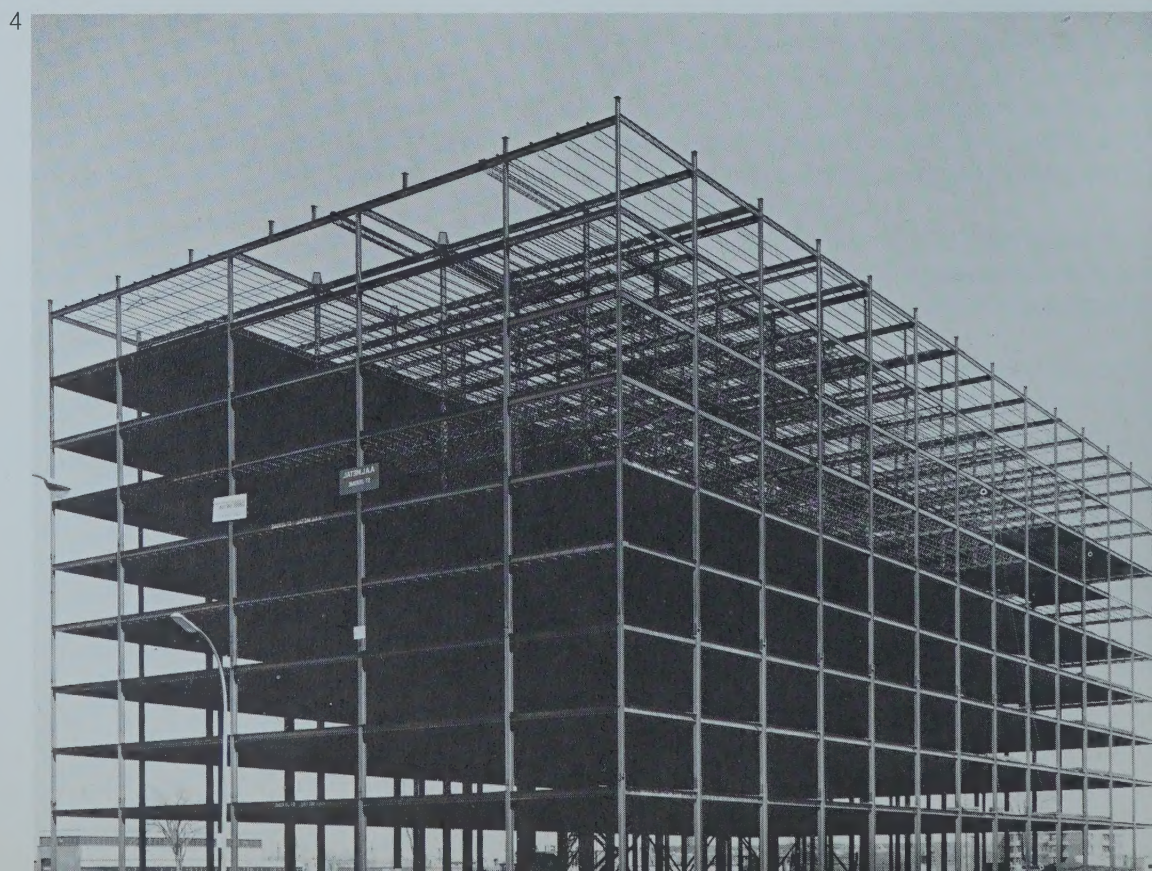
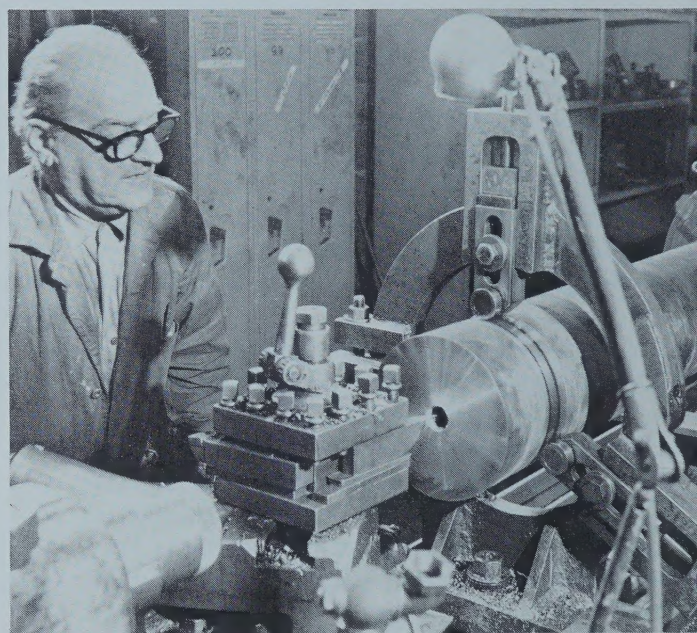
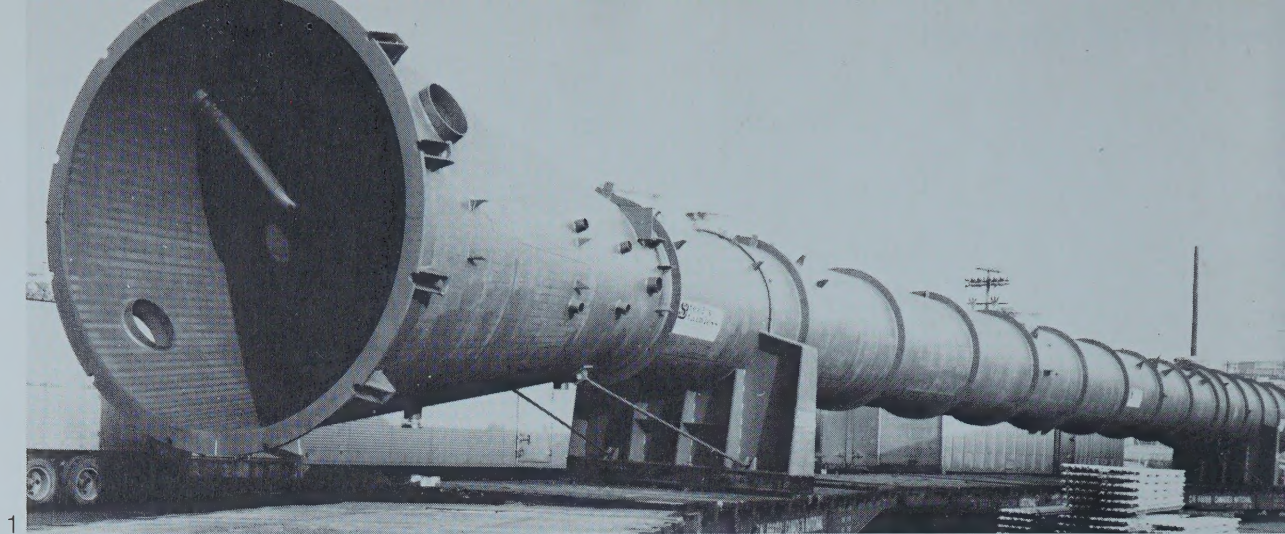
Your Board of Directors extends its thanks to the Company's employees for their loyal services, to suppliers and customers for their support, and to the shareholders for their continuing interest.

H. G. Seybold
Chairman of the Board
and Chief Executive Officer

D. T. Bourke
President and
Chief Operating Officer

Montreal, Que.

March 8th, 1974





5



6

Drummond, McCall supplies a broad range of metals and alloys, in different shapes and sizes to their many customers across Canada. These metals are manufactured into component parts of a wide variety of products, each having its own bearing on the Canadian economy.

1. Substantial quantities of carbon, alloy and stainless steel plate are used in the fabrication of towers for the chemical industry. This tower, en route to destination, designed for use in a heavy water plant, is an example.
2. Aluminum is used extensively for the lining of fish holds in the ever increasing fleet of modern trawlers fishing off the Atlantic Coast.
3. Large diameter Alloy Steel Bar machined in customer's plant to make gear spindles for gear units in paper machine.
4. Structural steel is an important component in the construction of buildings as is evident in this commercial building in the course of erection.
5. Canada is a leader in the design and manufacture of small gas turbine engines. High nickel alloys are used in the fabrication of the combustion chambers in order to withstand the high temperatures that are developed.
6. Intricate shapes of flame cut steel plate are used in the manufacture of this large farm tractor.

Balance Sheet

December 31, 1973

Assets**Current**

	1973	1972
Cash	\$ 12,010	\$ 11,460
Accounts receivable	13,811,447	9,130,218
Inventories, valued at the lower of cost and realizable value	11,832,069	10,451,713
Prepaid expenses	15,336	20,453
	<u>25,670,862</u>	<u>19,613,844</u>

Land, Buildings and Equipment, at cost

less accumulated depreciation (Note 1)	<u>8,088,023</u>	<u>8,024,796</u>
--	------------------	------------------

\$33,758,885\$27,638,640

Approved on behalf of the board:

D. T. BOURKE, Director

H. G. SEYBOLD, Director

Liabilities	1973	1972
Current		
Bank loans	\$ 3,460,975	\$ 3,947,321
Bankers' acceptances	—	400,000
Accounts payable and accrued liabilities	4,648,281	3,415,872
Income and other taxes	2,707,702	219,955
Long-term debt maturing within one year	2,100,000	100,000
	<u>12,916,958</u>	<u>8,083,148</u>
Long-term Debt (Note 2)	<u>600,000</u>	<u>2,700,000</u>
Deferred Income Taxes	<u>716,572</u>	<u>690,103</u>
Shareholders' Equity (Note 3)		
Capital Stock		
Common shares without nominal or par value		
Authorized		
Class A Convertible shares—5,150,000		
Class B Convertible shares—5,150,000		
Issued and outstanding		
Class A Convertible shares		
1973 — 976,825 1972 — 898,600	231,250	200,000
Class B Convertible shares		
1973 — 426,300 1972 — 501,400		
Retained earnings	<u>19,294,105</u>	<u>15,965,389</u>
	<u>19,525,355</u>	<u>16,165,389</u>
	<u>\$33,758,885</u>	<u>\$27,638,640</u>

Statement of Earnings

For the year ended December 31, 1973

	1973	1972
Sales and other Income	\$75,567,302	\$55,078,272
Cost and Expenses		
Cost of sales and expenses, before the under- noted	65,893,337	50,779,014
Depreciation	590,283	565,694
Interest on long-term debt	264,242	259,237
Other interest	161,721	197,483
	66,909,583	51,801,428
Earnings before Income Taxes	8,657,719	3,276,844
Provision for income taxes — Current	4,293,731	1,578,245
— Deferred	26,469	16,005
Net Earnings	\$ 4,337,519	\$ 1,682,594
Earnings per common share (Note 4)	\$3.10	\$1.20

Statement of Retained Earnings

For the year ended December 31, 1973

	1973	1972
Retained Earnings , beginning of period	\$15,965,389	\$14,992,990
Net Earnings	4,337,519	1,682,594
	20,302,908	16,675,584
Dividends on Common Shares		
	Per share	
Regular dividends	1973	1972
Class A — ordinary	63.0¢	50.7¢
Class B — ordinary	—	35.7¢
— tax-paid	53.6¢	12.8¢
Extra dividends		
Class A — ordinary	9.0¢	—
Class B — tax-paid	7.7¢	—
	594,634	417,346
	—	217,249
	244,717	64,094
	88,090	—
	32,451	—
Other		
Tax paid to create tax-paid undistributed surplus	48,911	11,506
	1,008,803	710,195
Retained Earnings , end of period	\$19,294,105	\$15,965,389

Statement of Source and Application of Funds

For the year ended December 31, 1973

	1973	1972
Source of Funds		
Net earnings	\$ 4,337,519	\$ 1,682,594
Depreciation	590,283	565,694
Deferred income taxes	26,469	16,005
Funds derived from operations	4,954,271	2,264,293
Issue of shares	31,250	—
	<u>4,985,521</u>	<u>2,264,293</u>
Application of Funds		
Land, buildings and equipment	653,510	286,194
Decrease in long-term debt	2,100,000	100,000
Dividends paid	959,892	698,689
Tax paid to create tax-paid undistributed surplus	48,911	11,506
	<u>3,762,313</u>	<u>1,096,389</u>
Increase in Working Capital	1,223,208	1,167,904
Working Capital , beginning of period	11,530,696	10,362,792
Working Capital , end of period	<u>\$12,753,904</u>	<u>\$11,530,696</u>

Notes to Financial Statements

December 31, 1973

1. Land, Buildings and Equipment

Land, buildings and equipment consist of the following:

	1973	1972
Land, at cost	\$ 1,121,637	\$ 1,121,637
Buildings, at cost	8,185,691	7,905,185
Equipment, at cost	5,434,997	5,113,364
	<u>14,742,325</u>	<u>14,140,186</u>
Less: Accumulated depreciation	6,654,302	6,115,390
	<u>\$ 8,088,023</u>	<u>\$ 8,024,796</u>

2. Long-term Debt

Long-term debt consists of the following:

	1973	1972
Bank term loan	\$ 700,000	\$ 800,000
Promissory note, 9¾%, due June 15, 1974	1,000,000	1,000,000
Promissory note, 9¾%, due September 1, 1974	1,000,000	1,000,000
	<u>2,700,000</u>	<u>2,800,000</u>
Less: Amounts due within one year	2,100,000	100,000
	<u>\$ 600,000</u>	<u>\$ 2,700,000</u>

The bank term loan agreement provides for interest at 1¼ % above the bank's prime rate and principal repayments of \$100,000 in 1974 and the balance of \$600,000 in 1975.

3. Capital Stock

- (a) The Class A and the Class B shares are inter-convertible at any time at the option of the holder on a one for one basis and participate equally, subject to adjustment made for the tax-paid feature on the Class B shares, as to dividends. Dividends on the Class B shares shall, unless the directors in their discretion consider it impracticable to do so, be paid in whole or in part, by way of cash out of tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand. Dividends on the Class A shares will be paid in an amount equal to the sum of the amount paid on the Class B shares plus any applicable amount
- of tax paid by the Company to create the amounts of tax-paid undistributed surplus pertaining to such dividends on the Class B shares.

(b) Changes in the issued and outstanding capital stock during the year were as follows:

(i) 3,125 Class A Convertible Common shares were issued under the employee stock option plan for cash of \$31,250.

(ii) 22,300 Class A Convertible Common shares were converted to Class B and 97,400 Class B Convertible Common shares were converted to Class A.

4. Earnings per Common Share

The dilution of earnings per share through the possible exercise of outstanding stock options is

not significant so fully diluted earnings per share are not shown.

5. Information Re Directors and Officers

	1973	1972
Number of directors	8	10
Remuneration of directors as directors	\$ 14,500	\$ 10,450
Number of officers	6	7
Remuneration of officers as officers	\$294,507	\$293,602
Number of officers who are also directors ...	2	3

6. Stock Option Plan

Under an employee stock option plan adopted in October 1972, 50,000 Class A Convertible Common Shares were reserved for stock options at the fair market value of the shares on the last business day prior to the date of grant.

During the year changes in options outstanding were as follows:

Outstanding January 1, 1973		25,725 shares
Less: Exercised during the year	3,125 shares	
Cancelled during the year due to expiry on death or termination of employment	1,750 shares	
		<u>4,875 shares</u>
Outstanding December 31, 1973		<u>20,850 shares</u>

The options outstanding are at \$10 per share and include 6,500 shares (7,625 in 1972) under option to officers, the options expiring October 1977.

Auditors' Report

To the Shareholders of
Drummond, McCall & Co., Limited:

We have examined the balance sheet of Drummond, McCall & Co., Limited as at December 31, 1973 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1973 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 14, 1974.

Price Waterhouse & Co.
Chartered Accountants.

Drummond, McCall & Co., Limited

DRUMMOND, McCALL & CO., LIMITED

AR51

Interim Report to Shareholders

Six months ended June 30, 1973

Statement of Earnings

(unaudited)

	Six months ended June 30th	
	1973	1972
Revenues		
Sales and Other Income	\$35,253,549	\$27,615,687
Cost and Expenses		
Cost of Sales and Expenses	32,124,654	25,941,282
Earnings before Income Taxes	<u>3,128,895</u>	<u>1,674,405</u>
Income Taxes — Current	1,595,257	816,862
— Deferred	11,431	3,736
	<u>1,606,688</u>	<u>820,598</u>
Net Earnings	<u>\$ 1,522,207</u>	<u>\$ 853,807</u>
Earnings per Common Share	<u>\$1.09</u>	<u>\$0.61</u>

To the Shareholders

Sales for the first six months of 1973 at \$35 million are up 27.9% over the similar period in 1972. After-tax earnings at \$1.5 million are up 48¢ per share over the same period. Net earnings improved primarily as a result of greater volume in a more stable market.

Our overall inventories are at a good level with replacements being received at a reasonable rate, and the outlook is good for the next quarter.

The increasing demand, however, for some of our products exceeds our ability to supply and shortages have developed in certain specific items.

Higher interest rates now in effect have not materially affected collections and our customers' accounts continue to be settled under normal payment patterns.

D. T. BOURKE
President
and Chief Operating Officer

H. G. SEYBOLD
Chairman of the Board
and Chief Executive Officer

Statement of Source and Application of Funds

Source of Funds

Net Earnings	\$ 1,522,207	\$ 853,807
Depreciation	312,840	273,679
Deferred Income Taxes	11,431	3,736
Funds derived from operations	<u>1,846,478</u>	<u>1,131,222</u>

Application of Funds

Land, Buildings and Equipment	380,878	123,313
Long Term Debt	1,000,000	
Dividends Paid	397,746	325,000
Tax Paid to create Tax-paid Undistributed Surplus	22,254	
	<u>1,800,878</u>	<u>448,313</u>

Increase in Working Capital	<u>\$ 45,600</u>	<u>\$ 682,909</u>
--	------------------	-------------------

(Subject to adjustment and year end audit)

Rapport interimaire aux actionnaires

Pour les six mois terminés le 30 juin 1973

Etat des bénéfices

(sous réserve de vérification)

Revenus	1973	1972
Ventes et revenus divers	\$35,253,549	\$27,615,687
Cout et dépenses	32,124,654	25,941,282

Bénéfices avant impôts sur le revenu	3,128,895	1,674,405
Impôts sur le revenu — courants	1,595,257	816,862
— reportés	11,431	3,736
Bénéfices nets	\$ 1,522,207	\$ 853,807
Bénéfices par action ordinaire	\$1.09	\$0.61

Etat de la provenance et de l'affectation des fonds		
Provenance des fonds		
Bénéfices nets	\$ 1,522,207	\$ 853,807
Amortissement	312,840	273,679
Impôts sur le revenu reportés	11,431	3,736
Fonds provenant de l'exploitation	1,846,478	1,131,222
Affectation des fonds		
Terrains, bâtiments et équipements	380,878	123,313
Dettes à long terme	1,000,000	
Dividendes versés	397,746	325,000
Impôt payé pour constituer un surplus non réparti et libéré d'impôt	22,254	
Augmentation du fonds de roulement	\$ 45,600	\$ 682,909

(Les données sont sujettes aux ajustements et à vérification de fin d'exercice)

Aux Actionnaires

Les ventes pour les premiers six mois de 1973 au montant de \$35 millions sont de 27.9% plus élevées qu'au cours de la même période en 1972. Les bénéfices nets de \$1.5 million sont plus élevés de 48 cents par action qu'au cours de la même période. En principe, l'amélioration des bénéfices nets est le résultat d'un volume plus considérable sur un marché plus stable.

Dans l'ensemble, nos inventaires sont à un bon niveau, nous recevons les approvisionnements à un rythme raisonnable et la perspective est bonne pour le prochain trimestre.

Cependant, la demande croissante pour certains de nos produits de passe notre capacité d'approvisionnement et a occasionné des déficits pour certains items spécifiques.

Les taux d'intérêt plus élevés maintenant en vigueur n'ont pas sensiblement affecté l'encassement, et nos clients continuent de payer d'après les modes de paiement ordinaires.

D. T. BOURKE
Président
et chef des opérations

H. G. SEYBOLD
Président du conseil
et chef de la direction